

tive sizes of banks of the time, instead of comparing those that have failed with the larger banks of to-day. You say 15 of 22 banks that failed during the period mentioned were small institutions, and argue therefrom weakness in the force of any comparison with the United States. The banks of that country average smaller than almost the smallest Canadian bank in the list of failures; they average in capital only \$135,365, while the banks in that country that have failed average \$165,786, indicating that small banks are not more prone to fail than large ones. Incompetence and dishonesty, with secretive management, have been the causes productive of failures of banks, large and small, in about the same percentages, from the failure, a century ago, of the colossal Bank of Amsterdam, which for two centuries had held the leading place in the world's finance, to the crash of the great banks of Italy in 1893, and even to the history of recent disreputable failures in this country. Perhaps by taking a mean between the banks of Scotland, Ireland and the United States, we may best reach an estimate of the number of Canadian banks that would have been saved from failure if external examination had been adopted at Confederation. The conclusion to be reached from such a viewpoint will afford neither comfort nor support to opponents of external bank supervision.

I read the article by your excellent contemporary, *The Montreal Gazette*, to which you make reference, but as the case is palpably different from bank inspection, attention was not given thereto. However, we had better look at the facts: The Law Guarantee and Trust Society of England had auditors, whose clearly defined duties consisted of merely verifying the figures of the balance sheet; they were not expected to value assets, and they limited their work accordingly. In regard to the impossibility of a valuation of the property of this company, the following are the words of W. B. Peat, Esq., the Chairman of its liquidators: "Properties under management had been the foundation of the condition of things which existed to-day. The properties under management consisted of residential flats, office properties, public houses, hotels, theatres, engineering companies, breweries, brickfields and sundry other properties, and the outstanding advances by the society upon those properties, after deducting the re-insurances, amounted to slightly over £2,000,000 sterling. The society's outstanding guarantees, after deducting what was covered by re-insurances, amounted to £9,600,000. Those guarantees did not deal with contingency risks and licenses insurance. No individual, however capable or far-seeing, would find himself able to give an estimate of a useful character in regard to the final result of those guarantees."

I have not urged that auditors are superhuman or infallible, or that all of them are incorruptible. To make any such claims would be as absurd as are the arguments implying that these claims have been put forth. But we may consider the episode of the Law Guarantee Company with that of a certain Canadian bank, examined by experts and reorganized in the spring of 1907. The assets of the bank were submitted to a corps of bankers of long training, for the purposes of scrutiny and

valuation. These assets were scrutinized by these experts and a pronouncement made that lacked nothing in the way of the most positive assurance regarding actual value or net result. In the one case the auditors were not expected to value the assets; they merely audited the books; that was all they pretended to do. In the case of the bank the experts gave assurances of having made a most conservative valuation. Failure followed in each case. From these facts the fair-minded will neither lose confidence in external bank supervision, and the auditing of companies, nor rashly conclude that in most cases bank capital is mythical. In one case no valuation was attempted; in the other the assets were not admissible as the assets of a legitimate bank, and the bank should have been promptly closed at the time. The bank had reached a condition where valuation within a margin limited by its capital, was impossible; and the assurances were imprudent. That a bank would reach such a condition, or be allowed to continue business in such a condition, under a good system of external supervision with examiners, well trained and accustomed to such work, is not conceivable.

In reply to a relative question, I may say that examiners or auditors accustomed to bank work can very readily estimate the quality of any particular account on a bank's books. They are as able to scent danger as a regular bank inspector. The methods by which inspectors and examiners are able to do this would take as much detail to explain as would be required by a physician to convey a knowledge of the subject of diagnosis. The knowledge that the work is successfully performed in other English speaking countries is a sufficient support to the assertion that external examination would be of great benefit to Canada.

I prefer to avoid any controversy over the value of the Monthly Returns of Canadian banks. In every case where the actual facts have come before the public the returns, to use a mild term, were incorrect, and this should sufficiently dispose of that portion of your argument that is based on the value of monthly reports. I assert that to the present they have had little, if any, value. But the subject cannot be elaborated without references that are liable to offend, and the discussion cannot well be carried on in the press. I may, however, add that the law on the subject in Canada is not strict; that, in fact, it is almost a dead letter, despite the few exceptions you mention. In view of the falsity of returns, it would seem that legislators would do well to seek through a Royal Commission a full knowledge of all details of the recent bank failures in Canada, at least before concluding that external supervision is not essential.

You quote Mr. James B. Forgan, president of the First National Bank, Chicago, in a way likely to lead to the erroneous impression that he is opposed to external bank supervision. While recognizing the limitations of examination, Mr. Forgan favours the examination under the Comptroller's Department; he favours examination by the Clearing House; he favours auditors assisting directors in making yet another examination. I quote his opinion, as a Canadian bank shareholder, on the subject of external examination of Canadian banks: "I am led by experience to believe that examinations by independent persons long accus-